

**REPORT OF THE AUDIT OF THE  
WARREN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2011**



**ADAM H. EDELEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**WARREN COUNTY CLERK**

**For The Year Ended**  
**December 31, 2011**

The Auditor of Public Accounts has completed the Warren County Clerk's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

**Financial Condition:**

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Warren County Clerk had total revenues of \$25,668,981, which was a \$1,985,443 increase from the prior year. Except for reimbursed expenses in the amount of \$18,353 the County Clerk paid 25% of receipts to the Warren County Fiscal Court in the amount of \$594,002. This was an increase of \$17,135 from the prior year. In addition, 75% operating fund expenditures increased by \$11,211.

**Report Comment:**

2011-01    The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable

**Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS.....	3
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS .....	6
NOTES TO THE FINANCIAL STATEMENTS.....	8
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	13
COMMENT AND RECOMMENDATION .....	17





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Michael O. Buchanan, Warren County Judge/Executive  
Honorable Dorothy Owens, Warren County Clerk  
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2011. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 24, 2012 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Michael O. Buchanon, Warren County Judge/Executive  
Honorable Dorothy Owens, Warren County Clerk  
Members of the Warren County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The County Clerk Lacks Adequate Segregation Of Duties And Has No Written Policy Over Accounts Receivable

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

July 24, 2012



WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

State Fees For Services		\$	36,197
Fiscal Court			26,139
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	3,329,754	
Usage Tax		11,936,112	
Tangible Personal Property Tax		8,009,803	
Miscellaneous Income		9,768	
Lien Release Fees		47,400	
Other-			
Marriage Licenses		31,382	
Occupational Licenses		3,148	
Deed Transfer Tax		342,079	
Delinquent Taxes		1,048,774	24,758,220
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		43,799	
Real Estate Mortgages		220,085	
Chattel Mortgages and Financing Statements		226,582	
Powers of Attorney		8,068	
Bail Bonds		110	
Fixture Filings		2,594	
Leases		1,717	
Liens and Lis Pendens		24,752	
Releases		59,910	
Wills and Estate Settlements		2,346	
Housing Trust Fund		133,104	
All Other Recordings		29,705	
Charges for Other Services-			
Candidate Filing Fees		450	
Copywork		23,672	
Notary Fees		28,568	805,462

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS  
For The Year Ended December 31, 2011  
(Continued)

Revenues (Continued)

Other:

Postage Reimbursements	\$	23,837	
Overpayments		16,566	
Bank Credit Memo		47	
Cash Drawer Transactions		60	\$ 40,510

Interest Earned			<u>2,453</u>
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Total Revenues			25,668,981
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Expenditures

Payments to State:

Motor Vehicle-			
Licenses and Transfers	\$	2,241,068	
Usage Tax		11,577,715	
Tangible Personal Property Tax		2,697,395	
Web Renewals		67,764	
Licenses, Taxes, and Fees-			
Delinquent Tax		149,627	
Legal Process Tax		90,691	
Affordable Housing Trust		<u>133,092</u>	16,957,352

Payments to Fiscal Court:

Tangible Personal Property Tax		904,339	
Delinquent Tax		162,092	
Deed Transfer Tax		324,975	
Occupational Licenses		<u>1,805</u>	1,393,211

Payments to Other Districts:

Tangible Personal Property Tax		4,087,673	
Delinquent Tax		<u>432,136</u>	4,519,809

Payments to Sheriff			84,752
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Payments to County Attorney			138,032
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The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS  
For The Year Ended December 31, 2011  
(Continued)

Expenditures (Continued)

Operating Expenditures:

Other Expenses-

Refunds	\$	19,802	
Bad Debt Expense		461	
Miscellaneous		<u>52</u>	<u>\$ 20,315</u>

Total Expenditures			<u>\$ 23,113,471</u>
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Net Revenues			2,555,510
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Payments to State Treasurer:

75% Operating Fund		1,961,508	
25% County Fund		<u>594,002</u>	<u>2,555,510</u>

Balance Due at Completion of Audit			<u><u>\$ 0</u></u>
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WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND  
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2011

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2011	\$	\$	\$
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,961,508		1,961,508
Fees Paid to State - County Funds (25%)		594,002	594,002
Total Funds Available	1,961,508	594,002	2,555,510
<u>Expenditures</u>			
Warren County Government		593,984	593,984
Personnel Services-			
Clerk's Salary	104,829		104,829
Clerk's Expense Allowance	3,600		3,600
Clerk's Training Incentive	3,679		3,679
Deputies' Salaries	962,385		962,385
Part-Time Salaries	2,717		2,717
Employee Benefits-			
Employer's Share Social Security	76,469		76,469
Employer's Share Retirement	179,473		179,473
Employer's Paid Health Insurance	119,451		119,451
Employer's Paid Life Insurance	384		384
Worker's Compensation	3,444		3,444
Contracted Services-			
Computer Equipment	181,174		181,174
Software License Service	900		900
Copy Machines	17,924		17,924
Miscellaneous Maintenance Agreement	549		549
Materials and Supplies-			
Office Supplies	13,321		13,321

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND  
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS  
For The Year Ended December 31, 2011  
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Conventions and Travel	\$ 8,497	\$	\$ 8,497
Dues	100		100
Office Equipment Maintenance	1,915		1,915
Miscellaneous Insurance - Unemployment	2,146		2,146
Tax Bill Preparation	11,960		11,960
Books and Maps	808		808
Books and Binders	5,499		5,499
Miscellaneous Office Expense	2,827		2,827
Clerk and Deputy Bonds	3,910		3,910
Telephone	5,138		5,138
Postage	20,000		20,000
Capital Outlay-			
Office Equipment	3,388		3,388
Office Furnishings	689		689
Office Repairs/Upkeep	274		274
Total Expenditures	1,737,450	593,984	2,331,434
Fund Balance - December 31, 2011	\$ 224,058	\$ 18	\$ 224,076

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2011

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2011  
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

WARREN COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2011  
 (Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Warren County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreements

The office of the County Clerk was committed to the following lease agreements as of December 31, 2011:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Remaining Balance December 31, 2011
Software License and Service	\$ 5,450	60 months	7/21/2014	\$ 168,950
Hardware Rental and Service	<u>9,645</u>	60 months	7/21/2014	<u>298,221</u>
Totals	<u>\$ 15,095</u>			<u>\$ 467,171</u>



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Michael O. Buchanon, Warren County Judge/Executive  
The Honorable Dorothy Owens, Warren County Clerk  
Members of the Warren County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the financial statements - regulatory basis of the Warren County Clerk for the year ended December 31, 2011, and have issued our report thereon dated July 24, 2012. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Warren County Clerk's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2011-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Clerk's financial statements for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Warren County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Warren County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

July 24, 2012

COMMENT AND RECOMMENDATION



WARREN COUNTY  
DOROTHY OWENS, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS:

2011-01 The County Clerk Lacks Segregation Of Duties And Has No Written Policy Over  
Accounts Receivable

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A lack of adequate segregation of duties exists over accounts receivable in the County Clerk's office. During our review of internal controls, we noted the County Clerk has no written policy for the allowance or collection of accounts receivable. We reviewed accounts receivable journals and noted employees who allow charges are also responsible for the collection of the accounts receivable. In addition, we noted an employee was allowed to process the accounts receivable transactions for a car dealership she works for part-time.

The lack of segregation of duties occurs because the County Clerk has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties over accounts receivable would prevent the same person from having a significant role in these incompatible functions.

We recommend the County Clerk require: a) proper authorization for accounts receivable charges and collections, b) documented reconciliation of accounts receivable by someone independent of accounts receivable charges and collections, c) the adoption of a written policy over accounts receivable that details allowable charges and collection procedures, and d) transactions be processed by employees not employed by the customer.

*County Clerk's Response: I have recently hired part-time employee and one of her responsible will be to oversee account receivable.*

